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CRISIS MANAGEMENT

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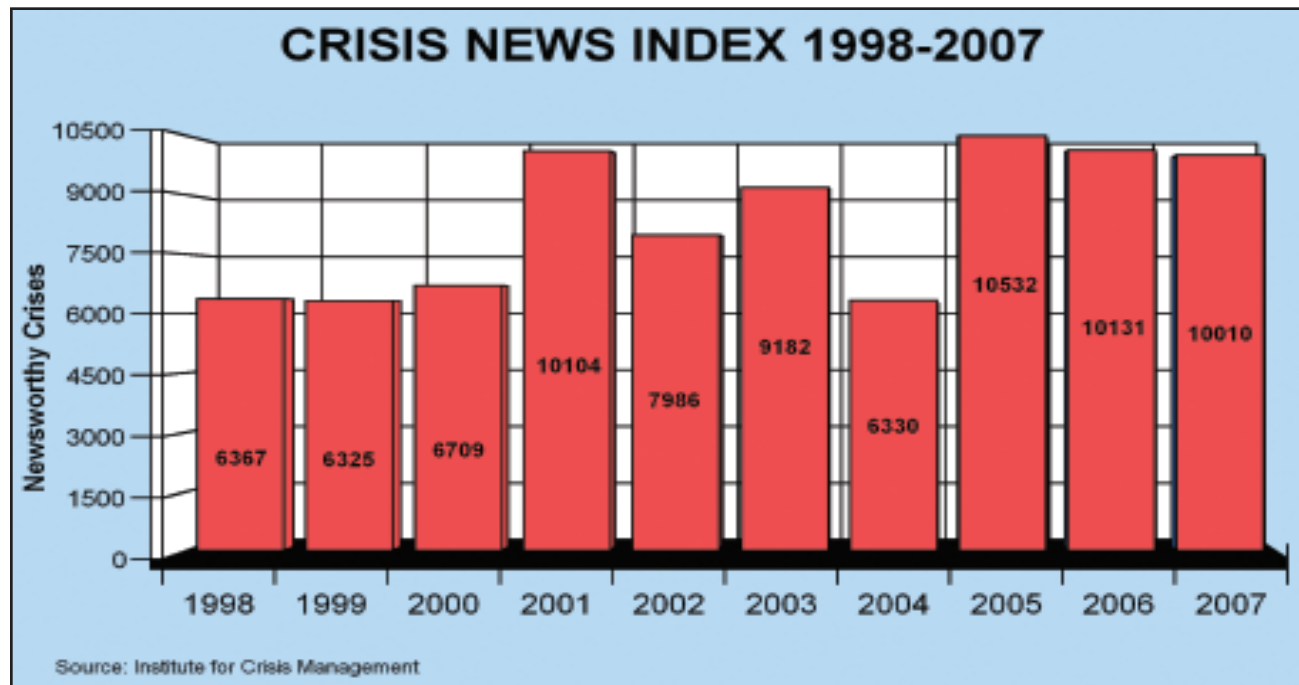
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Annual ICM CRISIS REPORT

News Coverage of Business Crises
During 2007

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This does not represent every crisis, but those business news editors determined of interest to their readers

OVERVIEW

Business crises were down slightly in 2007, compared to the two years before, but still up considerably from the relatively low crisis year of 2004.

While people were talking about the horrific Virginia Tech shooting, toy and pet food recalls, coal mine disasters, a tiger attack at a California zoo and hundreds of other business disruptions around the globe, a series of mortgage foreclosures and troubled lending institutions began to build toward a potentially even more disastrous 2008.

Countrywide, Bear Stearns, Citigroup, E-Trade Financial, New Century Financial and Merrill Lynch lost billions of dollars and untold clients and potential clients because of their involvement in the sub-prime meltdown. Mortgage defaults, falling home prices, chaos in commercial lending and the collapse of homebuilders touched almost every corner of the world.

The sub-prime debacle is one of those crises with far-reaching impact from home buyers who got squeezed by unscrupulous lenders, to financial

institutions who lost billions of dollars, to thousands of their employees who lost their jobs, to home builders and their employees who are out of work, to the furniture and appliance manufacturers who've laid off workers, to the consumers that are afraid to buy and the retailers that are in trouble.

The first hint of trouble in the sub-prime market began in late 2006, but the real bad news began to make headlines in the third and fourth quarter of 2007. The US economic crisis began to infect other countries and other markets and as the first quarter of 2008 ended, the world was facing a recession.

Most business crises involve one or two of the 16 broad crisis categories that ICM has been tracking since 1990.

ICM definition of a business crisis
Any problem or disruption that triggers negative stakeholder reactions that could impact the organization's financial strength and ability to do what it does.

The sub-prime crisis ultimately may spread across eight major crisis categories:

- Financial damages
- Mismanagement
- Class action lawsuits
- Consumer action
- White collar crime
- Whistleblower
- Executive dismissal
- Hostile takeover

CitiGroup and Merrill Lynch shed their CEO's quickly after the multi-billion-dollar losses were made public.

Crisis Categories Compared 1990 – 2007
(% of total crises each year)

	<u>1990</u>	<u>2006</u>	<u>2007</u>
Catastrophes	5.5	9.0	7.0
Casualty Accidents	4.8	7.0	7.0
Environmental	7.8	2.0	2.0
Class Action Lawsuits	2.2	7.0	9.0
Consumer Activism	2.8	4.0	5.0
Defects & Recalls	5.4	4.0	5.0
Discrimination	3.3	4.0	3.0
Executive Dismissal	1.3	2.0	1.0
Financial Damages	4.2	4.0	4.0
Hostile Takeover	2.6	1.0	0.0
Labor Disputes	10.3	10.0	9.0
Mismanagement	24.1	14.0	11.0
Sexual Harassment	.4	2.0	1.0
Whistle Blowers	1.1	1.0	1.0
White Collar Crime	20.4	21.0	19.0
Workplace Violence	3.8	9.0	15.0



Executives and managers continue to be responsible for just over half of all crises that strike organizations of all sizes, while employees are credited with sparking 29% and outside forces triggered the remaining 19%, on average, over the past ten years.

Top executives and managers made news in 2007 for mismanagement and white collar crime, and in the case of the American Red Cross, a new CEO was forced out six months after taking the job. He admitted to an inappropriate personal relationship with an employee.

UnitedHealth Group's former CEO, caught in the stock option backdating scandal, agreed to surrender \$400-million to settle a lawsuit. And, federal regulators filed civil charges against the former CEO of Nortel Networks and three former associates, accusing them of manipulating the company's earnings by more than \$1-billion. They made millions in bonuses by playing with the company's sales figures.

Bankruptcies soared in 2007. Filings for the first half of 2007 were up 48-percent. Most bankruptcy filings are by individuals, but in the first half of 2007 business filings jumped 45-percent over the same period the year before.

THREE TYPES OF CRISES RISE

ICM monitors negative news coverage of 16 broad crisis categories, and in 2007 only three were up: defects and recalls, workplace violence and class action lawsuits.

Workplace violence accounted for 15-percent of all crisis news last year and recorded the biggest increase of negative news coverage of any of the 16 crisis types ICM tracks. Workplace violence was down slightly in 2006 and rebounded in 2007 with the headline grabbing deaths of 33 victims on the Virginia Tech campus in April, and a shooting in a Cleveland high school in October.

But there were thousands more workplace violence incidents ranging from the young man who walked into the North Andover, NH tire store where he used to work, and shot up the place, wounding one person, to scores of workplace violence incidents in hospitals around the world where patients and their families routinely attack doctors and other medical staff. One Huddersfield, England hospital reported more than 330 attacks on hospital staff in one year.

Class action lawsuits increased slightly last year, but the other major jump in crises came in product defects and recalls, up 44-percent over the year before.

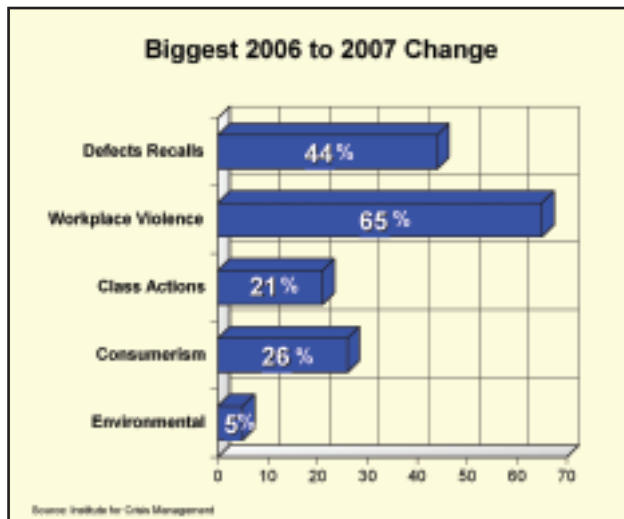
Defective toys and other products made in China rattled companies like Mattel, and contaminated pet food left hundreds, if not thousands of dogs and cats sick or dead and at least three companies have been indicted. Two Chinese companies and two top executives faced 13 felony counts and ChemNutra Company and its two US owners faced 26 misdemeanor counts and one felony.

Menu Foods recalled 60-million cans and pouches of potentially contaminated cat and dog food. Other big name pet food distributors were included in the negative publicity.

Toy companies lost millions of dollars in sales and millions more in recalled and destroyed merchandise, on top of their badly bruised reputations, and likely new federal regulation of what and how they do business. Mattel recalled more than 20-million toys and became one of the top three longest running crisis stories of 2007.

Hasbro had to recall one-million Easy-Bake Ovens after reports that 29 children got their fingers or hands caught in the door and five suffered burns. Barbie accessories, Thomas & Friends trains, and Fisher-Price were also involved in the toy recall debacle.

One-million Chinese-made baby cribs were recalled in the US after three children were trapped and suffocated in them. Maytag, Jenn-Air and GE dishwashers, GE Monogram Gas Ranges and GE combination conventional and microwave ovens were also recalled.



Volvo, Toyota, Nissan, Chrysler, Ford and Honda all had recalls in 2007.

And if having your toys and cars recalled wasn't bad enough, e-coli and other contaminants led to major food recalls for everything from hamburger to spinach.

At mid-year, United Food Group recalled 5.7 million pounds of fresh and frozen beef after e-coli sickened 14 customers in six Western states.

Four months later America had its second-largest ground beef recall, 21.7 million pounds. Topps Meat had packaged and distributed the beef and at least 27 human illnesses were linked to it. Topps had been in business 67 years, and was out of business within six days after the recall was ordered. Botulism was detected in canned chili, sauces and stews distributed by Castleberry Food to 17,500 stores across the US.

Early in the year, Peter Pan and Wal-Mart brand peanut butter was recalled because of salmonella contamination.

There were almost as many different ways to manage these recall and contamination crises as there were variations on the crisis type. At one end, the Chinese government sentenced to death the former head of its food and drug watchdog office, while an Arkansas company offered \$100 to a Utah woman who found a mouse's head in a can of green beans. The offer from Allens, Inc. stipulated she could have the \$100 if she promised not to sue the canning company.

As the year drew to an end, a small medical supply company called Sierra Pre-Filled was ordered to recall contaminated syringes after more than 40 patients in at least three states became deathly ill after using them. The company has a plant in Angier, NC where the syringes were packaged. Within days after the Food and Drug Administration ordered the recall, the company's website disappeared, the plant door was locked, the parking lot was empty and the owner of the company dropped from sight. Only about 90 employees were affected, but the lawsuits were piling up and the company was not responding.

The food service sector, including restaurants and supermarkets, had their share of negative news coverage. After all the recalls for Chinese-made toys, China made headlines again when the U.S. Food and Drug Administration ordered import restrictions on five types of Chinese-raised sea foods because many were contaminated with chemicals.

And after a number of e-coli cases made news in the Northeastern United States, Taco Bell took a major hit when someone shot video through a New York City store front window showing rats running around inside one of their franchisee's fast food restaurants.

Most Crisis Prone Industries 2007

1. * Software Makers
2. * Pharmaceutical Companies
3. * Petroleum Refining
4. * Natural Gas Companies
5. * Security Brokers/Dealers
6. * Banking
7. * Telecommunications
8. Automobile Manufacturing
9. * Airlines
10. * Computer Manufacturers

(Ranked by number of database records)

*In top ten previous year

MOST CRISIS PRONE INDUSTRIES

Nine of the ten most crisis prone industries repeated from the previous year. Only auto makers were new to the top ten.

The American Big Three and even some of the top selling European and Japanese carmakers labored through difficult times and fought the “bad news” throughout 2007.

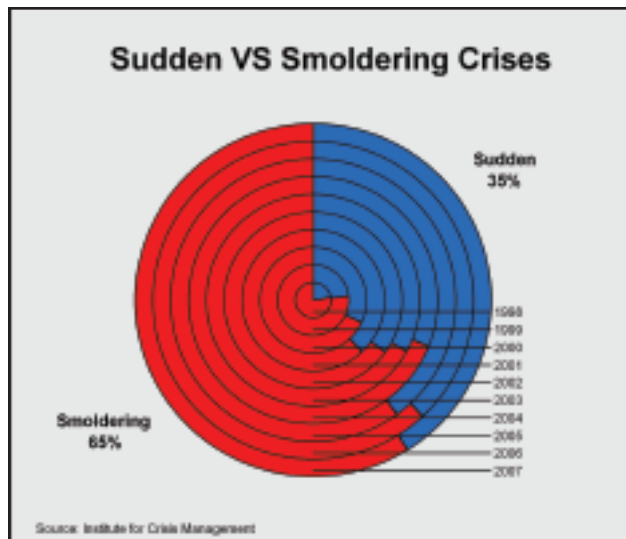
Besides the wide-spread recall of cars by almost all of the major manufacturers, the industry had its financial and labor problems, too. In September 73,000 United Auto Workers took to the streets outside GM plants in the first nationwide strike since 1976. After the GM settlement, Chrysler autoworkers went on strike for 7 hours.

There were no “new” crises in 2007. In fact, here at ICM we maintain there are no new crises. Nothing happened last year, to any organization, that had not already happened to someone else. So you don’t have to reinvent the wheel to prepare your own crisis operations, communication or business recovery plans.

ICM has been helping large and small businesses, not-for-profits, Fortune 500 companies, healthcare, national religious denominations, public schools and higher education for nearly 20 years.

All of those organizations face the same four types of crises:

- Sudden
- Smoldering
- Perceptual
- Bizarre



SUDDEN CRISES

On average, over the past ten years, only a third of all business and organizational crises were the sudden type – fires, explosions, natural disasters, workplace violence, etc.

They still often generate the biggest headlines and are the first kind of business crisis to come to

mind when an executive thinks about crisis planning.

Faculty and students of Virginia Tech, the state of Virginia and the nation struggled to make sense of the April bloodbath that left 33 dead and 26 wounded.

We watched the leadership of VT respond to the public in a timely way that morning, then wanted to climb through the television to stop the University President from his first public mistake.

At the first news briefing hours after the shooting stopped, President Charles Steger introduced himself, the University PR Director and the Campus Chief of Police and then announced they would stay and answer questions until reporters were done.

The only problem was, reporters had more questions than he had answers. The lesson for spokespersons in the early hours of a sudden crisis is to get out as early as possible and tell the public what you know and what you can reveal, and DO NOT offer to take questions until later when you have answers

Virginia Tech was not the only mass murder in the United States in 2007. A gunman killed four, wounded five others and then killed himself at a Colorado Springs, Colorado mega-church. Another shooter wounded five and then killed himself in an Omaha, Nebraska mall, ten months after an 18-year-old killed five people and wounded four at a Salt Lake City shopping mall.

Most workplace violence did not make national headlines, but still had a significant impact on the people and companies involved, like the two employees of a Walbridge, Ohio trucking company that were left for dead by a man who fled in one of their trucks.

Guns were not the only source of sudden crises.

Throughout 2007 there were headlines like “Thousands Flee Michigan Acid Leak,” and “Hundreds Flee Minnesota Acid Leak,” “Tanker Truck Inferno Destroys Homes” and “1 Missing, Dozens Hurt in Garage Collapse.”

“Blast, Fire Kill 4 at Florida Plant,” “Kansas Town Devastated by Tornado: Nine Dead,” and a day after fire struck a Port Arthur, Texas Valero Energy Company refinery, company officials had to face an angry town-hall meeting crowd.

Robert Murray, the crusty owner of a Utah coalmine, was quick to appear before the media after six miners were trapped in one of his underground mines.

The public and the media first praised Murray for being on the spot and talkative. Then people began to laugh at some of the outrageous things he said. He blamed the mine collapse on an earthquake, then scolded environmentalists for their crusade against global warming. And, after three

rescuers were killed, he left the mine site and the public eye.

Murray was the imperfect example of all the wrong things to do after a crisis.

First of all, the CEO should not have been the on-going spokesperson. He should have appeared once to express his sympathy for the victims and their families and pledge his support and cooperation for the rescue effort.

After that, he should have been managing the crisis and someone else should have been spokesperson. When the CEO is the spokesperson and he or she misspeaks there is no one left to step in and fix it.



SMOLDERING CRISES

Two thirds of all business crises are what ICM calls smoldering crises. They are the kind of issues and problems that could be spotted and fixed before they ever get big enough and out of control.

A smoldering crisis is a problem that starts out small and someone within the organization should recognize the potential for trouble and fix it before it becomes a public issue.

One of the most far-reaching smoldering issues in 2007 was the loss or theft of personal data such as credit card and Social Security numbers. One watchdog group estimates more than 79-million records were compromised in 2007, four times the number the year before.

Much of the private information was lost through human carelessness, not to hackers and thieves.

Most Crisis Prone Businesses in 2007

(Ranked by number of database records)

1. * Microsoft
2. Quest
3. General Motors
4. * Wal-Mart Stores
5. * Enron Corp.
6. Morgan Stanley
7. Mattel, Inc.
8. * Hewlett-Packard
9. Siemens AG
10. Merrill Lynch

*In top ten previous year

Microsoft has only missed the top ten list twice since 1997. Wal-Mart has been in the top ten the past 5 years in a row year.

Wal-Mart has been raked over the coals in the past two years on issues such as health care, wages and lawsuits. A Wall Street Journal/NBC poll late in 2006 said 45-percent of those surveyed viewed Wal-Mart favorably and 31-percent had a negative attitude. But, in early 2007, Wal-Mart's own poll said in spite of all its negative publicity, less than one-percent of American consumers had stopped shopping there.

Another irony was repeated in 2007. Microsoft has been among the most crisis prone companies in 8 of the past 10 years, but the 2007 Cision Corporate Media Reputation Index of US companies puts the software giant also at the top of the "good reputation" scale. General Motors was still unprofitable in 2007, but moved into second place on the reputation index.

WHAT TO DO?

- You need a plan: an operations plan, a communication plan and a continuity or business recovery plan.
- You need to identify and train spokespersons and agree on what you will say, to whom you will say it, and how you will deliver it and do it before the next crisis hits.
- Your internal audiences are almost always the most important. You can develop a multi-million dollar external communication program and wipe it out with one uninformed and unhappy employee.
- Pay attention to what your employees are talking about, your customers are doing, the media is reporting and bloggers are writing.

**ICM tracks 16 broad
crisis categories**

In 1990, ICM began monitoring 1500 print business sections of newspapers and magazines, business and financial wire services, regional business publications and industry and trade publications world-wide.

- Catastrophes
- Environmental
- Class Action Lawsuits
- Consumerism Actions
- Defects and Recalls
- Discrimination
- Executive Dismissal
- Financial Damage
- Hostile Takeovers
- Labor Disputes
- Mismanagement
- Sexual Harassment
- Whistleblower
- White-Collar Crime
- Workplace Violence
- Casualty Accidents

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And, ICM now has a strategic partner in Athens, Greece, Politics S.A., serving a four country region there.



**Institute for Crisis
Management**

President Larry Smith and our experienced Senior Consultants bring more than 45 years experience in media, government & public relations to help clients plan, train, and when necessary, manage their organization's crises.

The **Institute for Crisis Management** is a company that concentrates on Crisis Communication Planning, Training and Consulting and serves clients throughout the US and abroad.

ICM develops communication strategies that can avert or at least minimize the disruption and financial impact of a sudden or smoldering crisis so the client business or organization can return to normal as quickly as possible.

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